

# **GUIDANCE ON FINANCIAL RESPONSIBILITY FOR CLASS II INJECTION WELLS**

## **REGIONAL GUIDANCE #2**

### **I. ISSUE**

A large number of Class II operators in the direct implementation States of Michigan and Indiana lack adequate financial responsibility to properly plug and abandon an injection well as described in the EPA guidance manual, Financial Assurance for Federally-Administered Underground Injection Control Programs.

Memoranda of Understanding (MOU) with Michigan and Indiana have been established so that operators may obtain Federal coverage of their injection wells using their State bonds. Because of the differences between using State bonds and Federal mechanisms, Region V perceives the need for guidance on which to base regulatory decisions on adequate coverage for operators using State financial assurance mechanisms.

### **II. BACKGROUND**

As part of the State permitting process in Indiana and Michigan, operators are required to obtain either State individual bonds or State blanket bonds. Since Region V also permits these same wells, MOU's were developed with both States so that operators could use their State bonds to fulfill the Federal financial responsibility requirement, wherever possible.

If individual State bonds are used, they must cover the total cost of plugging and abandoning the injection well. If the total cost is not covered under the individual State bond, then the remaining amount must be secured by using mechanisms described in the Federal summary Federal Financial Responsibility Demonstrations for Owners and Operators of Class II Injection Wells, (EPA 570/9-84-007).

State blanket bond coverage may also be used, although determining if the coverage is adequate is difficult because of the differences in State and Federal requirements. The following is a discussion of the Regional guidance regarding the use of State blanket bonds for the plugging and abandonment of injection wells regulated by the Underground Injection Control (UIC) program.

### **III. DISCUSSION**

In the Federal summary for financial assurance, Federal Financial Responsibility Demonstrations for Owners and Operators of Class II Injection Wells, (EPA 570/9-84-007), Federal blanket bond coverage is accepted with the following stipulations:

1. The operator has plugged and abandoned wells in the past in accordance with the regulations;
2. The operator has at least one oil field or lease with an estimated remaining economic life exceeding 5 years;
3. The operator has been in the oil business for more than 5 years;
4. The operator is producing from more than one production field within the State;
5. The operator operates more than 10 injection wells; and
6. The operator can pass a financial test as outlined in the Federal summary.

If these six criteria are met, the operator may post a Federal blanket bond where the minimum coverage is equal to the cost of plugging and abandoning ten injection wells.

State blanket bond coverage is based upon the blanket bond requirements of the individual State. In Michigan, blanket bond coverage for Class II wells is \$50,000. Under these blanket bonds, any number of production and injection wells may be covered. Most of the Michigan operators have Class II blanket bonds for \$50,000 that cover a large number of both injection and production wells throughout the State.

In Indiana, blanket bond coverage for Class II wells was \$5,000 if received before March 11, 1971, and is \$30,000 for coverage since September 1, 1985. Again, there is no limit to the number of production and injection wells that may be covered under this bond. The bond must be issued by a company holding an applicable certificate of authority from the Department of Insurance, State of Indiana. Not many Indiana operators have blanket bonds at present. The lower dollar coverage of the blanket bonds may be attributed to the shallower wells in Indiana and thus cheaper plugging costs than are found in Michigan.

In consultation with other Regions on the use of blanket bonds, it was found that none of the other Regions yet have MOU's with direct implementation States that would allow the use of State mechanisms. However, Region II has a draft MOU with New York that would allow the use of blanket bonds on a field basis only. Region III is also working on a MOU with Pennsylvania.

Regions II, III, VI and VIII all follow the Federal guidelines stating that the blanket bonds must cover 10 times the cost to plug and abandon an injection well. Region IV, however, is slightly more stringent. In Region IV, a Federal blanket bond can only be used if all the wells covered under that bond are located in the same oil field. In Region V, Federal blanket bond coverage must be 10 times the average cost to plug and abandon injection wells covered under that bond. The remaining Regions do not deal with blanket bonds.

The main problems with using State blanket bonds for financial coverage are:

1. Both production and injection wells State-wide are covered under the same blanket bond; and, therefore, the bond may include a large number of wells;

2. The present coverage for blanket bonds in Michigan is \$50,000 and in Indiana is \$30,000. This is generally less than the Federal guideline of 10 times the cost to plug and abandon an injection well; and
3. The States do not have complete or easily accessible records of the operators with poor plugging histories. Such information is needed to evaluate the reliability of the operator.

#### IV. RECOMMENDATIONS

There are several alternative solutions to the problems raised by State blanket bonds.

1. Accept State blanket bonds as adequate financial mechanisms. This would usually be less coverage than Federal guidelines suggest for blanket coverage because the State bonds would often cover more than just injection wells. However, the idea of blanket bond coverage is to cover a greater number of wells based on the reliability of the operators to properly plug and abandon the injection wells.
2. Not accept the use of State blanket bonds. If State blanket bonds were not accepted, the operators would have to obtain dual coverage for the same well. The additional expense of obtaining dual coverage would be an added burden to the operator during an oil industry decline.
3. Raise the State blanket bond coverage so that it is equal to the Federal blanket bond coverage, i.e., 10 times the average cost of plugging and abandoning an injection well. This, however, does not take into account that producers as well as the injectors are also included under this blanket bond and therefore, State blanket bonds would frequently cover more wells than the Federal blanket bonds. Many operators already have blanket bonds and are not able to increase the amount of the bond or obtain new bonds due to the economic problems of the oil industry.
4. Raise the dollar coverage and restrict the use of a State blanket bond to a single field. This would limit the number of wells that are covered under one blanket bond. However, many operators have had trouble increasing the coverage on their blanket bonds. Very few State blanket bonds currently cover wells in only one field.
5. Require State blanket bond coverage to equal 10 times the average cost to plug and abandon a well in a field or lease, but allow State-wide blanket coverage if equal to at least 75% of the actual cost to plug and abandon all the wells listed under that bond. This would still place a burden on the operators since few blanket bonds are in compliance with this guidance. Most operators would have to increase their coverage or obtain new bonds.

Despite the economic impact on the industry, it is recommended that option #5 be used as Region V guidance. This option ensures that the EPA does not accept inadequate coverage for plugging and abandonment of injection wells. Acceptance of 75% of the total cost of plugging and abandonment of the injection and production wells helps ensure that the wells will be adequately plugged if the company goes bankrupt.

Since State records are inadequate to check the operators' plugging history this would also alleviate hidden problems. Restricting the use of a blanket bond to one field, in cases where coverage is less than 75%, limits the number of wells that are covered under one bond. This will

be a major burden to operators that have many wells covered under one blanket bond as they will need to obtain dual coverage or increase their bonding amount. However, this option is recommended as providing a better guarantee that dollar amounts will be available to plug and abandon the wells with less risk to the EPA.

Furthermore, it is recommended that the guidelines for using the Federal blanket bonds follow the proposed State blanket bond guidelines to insure consistency in Regional policies.